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SUMMARY

UNITED STATES POLICY ON JAPANESE EXPORT CONTROLS

I. UNITED STATES POLICY RELATING TO JAPANESE EXPORT CONTROLS.

United States policy provides that the United States should seek to obtain effective export controls in Japan which will contribute to the mutual security interests of the free world. At the same time, United States policy towards Japanese export controls must generally take into account the following related policies:

1. It is our policy to assist Japan to become economically self-supporting and to increase its output of strategic materials of benefit to the free world.
2. NSC 104/2:
 - (a) It is United States policy to press for the application by the maximum number of friendly countries of controls which will diminish the war potential of Communist China;
 - (b) It is United States policy to take such steps as are practicable to develop alternate sources of supply of important basic materials required by the free world and now being obtained from the Soviet Bloc;
 - (c) It is United States policy to determine the desirability of diverting to the free world specific products or services now being offered by the free world to the Soviet Bloc.
3. ^{Auth. Law 113} ~~The Battle Act~~ establishes a policy of terminating aid to countries which knowingly permit the export to the Soviet Bloc of certain stated categories of strategic commodities.

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II. JAPANESE EXPORT CONTROL POLICY.

Although it was recognized by the United States Government in 1949 that increased Japanese trade with China would contribute importantly to the economic viability of Japan, it was nevertheless concluded that exports of strategic goods to China would have to be restricted in accordance with the mutual security interest of Japan and the United States. United States policy in respect to Japanese export controls as established in the latter part of 1949 and early 1950 provided that exports of items of primary strategic importance were to be denied to the Soviet Bloc including Communist China and that exports of items of secondary strategic importance were to be strictly limited and exported only when the balance of advantage was clearly in favor of Japan. On June 25, 1950, immediately following the outbreak of the Korean hostilities all security goods as well as other materials of a critical nature were prohibited to Communist areas. These controls were further tightened in December of that year including the additional restriction that all goods landed in Japan for transshipment were subject to export licensing. The prohibited list now includes virtually all commodities but the following: certain foodstuffs, cotton textiles, raw silk and silk fabrics, woolen fabrics, bicycles, sewing machines, handpowered agricultural machinery, and paper. *change*

III. ANALYSIS OF JAPANESE TRADE WITH THE SOVIET BLOC.

A. Exports.

Japan's exports to the Soviet Bloc, almost all of which went to Communist China, were valued at \$20.4 million in the calendar year 1950 and at \$5.5 million for the period January-July 1951. 1950 exports represent about 2.5 percent of total value of exports and those of the first seven months of 1951 less than one percent of total exports.

Exports to Communist China in 1950 consisted of a great variety of manufactured items with two groups, metals and metal products

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products, and machinery accounting for more than 80 percent of the total value. Other primary export categories included fibers and textiles, rubber and manufactures, industrial inorganic chemicals, pigment paints and vernishes, and scientific and professional instruments. It is estimated that during 1950 about half of Japan's exports to Hong Kong which consisted primarily of rayon filament and cotton yarn and fabrics were re-exported to Communist China.

As a result of tightening of export controls since December 1950, Japanese exports in 1951 were reduced in amount and changed in character. Primary exports have consisted of: bicycles, sewing machines, fishery products, textile products, and dried milk.

Two barter deals providing for the export of cotton goods in exchange for salt and coking coal have been concluded.

B. Imports.

Imports into Japan from the Soviet Bloc including Communist China amounted to \$44.2 million in 1950 and to \$19.7 million in the first seven months of 1951. Trade with Communist China amounted to \$39.5 and \$17.2 in the same periods. Imports from these areas constituted 4.6 percent and 1.4 percent of total imports in the same years respectively.

Major imports from Communist China in 1950 consisted of soybeans, peanuts, iron ore, coal, ramie, oil cake, and salt. For the first seven months of 1951, peanuts, soybeans, and oilseeds accounted for one-third of imports with agricultural products, coal, iron ore, scrap iron and steel the other important items. Primary imports from the Eastern European Soviet Bloc comprised potash fertilizer from Eastern Germany and Poland, and magnesite from Czechoslovakia. In 1950 the U.S.S.R. supplied \$738,000 worth of coal; however, no imports from the U.S.S.R. were recorded in 1951. Imports from Hong Kong, a considerable portion of which may have originated in China, consisted of peanuts, beans, scrap iron and steel.

Due to present world conditions and restrictions on trade with Asiatic areas under Communist control, procurement of adequate supplies

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supplies of certain raw materials to meet the requirements of an expanding economy has become a major problem for Japan. Such items as iron ore, coking coal, pig iron, salt, soybeans, peanuts, and fertilizer were obtained from China in large quantities during the pre-war period, and were on the increase in 1950 although drastically reduced in 1951. It is estimated that Japan's imports of potash primarily from Eastern Europe could be obtained from other sources. Foodstuffs could probably be obtained from the United States without additional costs. Imports of iron ore and coking coal can be obtained from alternate sources, the United States and Southeast Asia primarily at somewhat higher costs; however, the total difference in cost in obtaining these two items with an allowance for other minor items from other areas would amount to \$70 million in 1951-52. The increased cost might make Japanese industry somewhat less competitive in world markets. Additional problems are created by a shortage of shipping space both foreign and domestic.

C. Short and Long Run Problem of Markets for Japanese Goods.

In the short run, Japan's prospects for expanding its exports appear good in view of special procurement for military purposes and the conclusion of trade agreements providing for high levels of trade. The impact on the Japanese economy of a complete cessation of Communist China purchases in Japan in the short run if considered in terms of the volume of trade in 1950 would, therefore, appear to be relatively minor.

are expected to increase possibly to \$2.2 billion
an estimated Japan's total exports may well reach a level in excess of \$2.2 billion in 1952 including ~~about~~ ^{(about} \$350 million in special defense procurement. The remainder, which would comprise commercial exports, would mean an expansion of Japanese trade by about 40 percent over the annual rate of Japanese exports for the first six months of 1951. A very large portion of the expansion of such trade is expected to be with South and Southeast Asia. Exports to areas other than Asia in 1952 are estimated at double the 1950 rate. Present world conditions combined with the recognized resourcefulness of Japanese traders and Japan's industrial capacity justify an optimistic view, for the near future at least, of Japan's export prospects. Japan may, however, require United States assistance in

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order to obtain sufficient supplies of raw materials required to reach the above assumed production levels.

D. The Significance to the Chinese Domestic Economy and War Effort of Trade with Japan.

Japan, as an industrial nation and by its location and past economic relations, is of particular importance to China and China's prospects for development. China requires industrial imports which Japan can furnish more cheaply and more rapidly than other areas. Moreover, Japan is a potentially large market for China's exports. Restrictions on Japanese trade with China have caused an unnatural reliance by the Chinese on imports from the Soviet Union which may become a potential source of friction between the two Communist countries. *serious*

Some importance
Sino-Japanese trade during the post-war period has been negligible in contrast to pre-war trade, due in part to the political chaos in China and to the low level of industrial output and commercial foreign trade of Japan. Japan's 1950 exports of industrial products to China comprised less than one-fifth of China's imports of those items which were (important) in enabling rehabilitation and maintenance of industrial plants and a consequent increase in the industrial output of the Chinese. China must depend on the Soviet Union to meet its deficiencies of military equipment. Resources which China contributes to its war potential are such non-military items as food, clothing, transport, and similar goods and services. *own*

The Chinese Government now exerts strong controls over the terms, direction and composition of China's foreign trade and it is clear that the terms of Sino-Japanese trade would be established by government policy decisions and not by private traders. Barter trade offers will probably be made by both countries to the extent that controls permit.

It is obvious that exchanges of goods between China and Japan would provide benefits to each country. Although the Chinese Communists will undoubtedly set the terms at which China will trade, in the face of pressing imports needs and the problem of export

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markets, China may be more concerned with expanding the volume of trade than restricting it to obtain better terms.

IV. JAPANESE PRODUCTION OF STRATEGIC MATERIALS.

Japan's industries have sufficient capacity to make a significant contribution to the strategic materials position of the free world; however, Japan's contribution is heavily dependent upon the importation of raw materials. The most important of the materials which Japan can produce are: steel, steel products, machinery (electrical, communications, transportation), sulphur, aluminum, refined copper, caustic soda, soda ash, drugs and pharmaceuticals, gasoline and lubricating oil. Most of these items are in global short supply at the present time. Japan must maintain a high level of exports of manufactured goods in order to obtain foreign exchange for required food and raw materials. (See attachment for discussion of these items.)

V. BALANCE OF PAYMENTS PROSPECTS.

It is estimated that Japan will enjoy a relatively favorable balance of payments position during the next two years. Deficits in commodity trade with the dollar area can probably be covered by earnings from special exports and expenditures of United States military personnel stationed in Japan. Loss of China trade should not have a crucial effect on the short-run balance of payments position. The long run problem is a more serious one and will depend upon the competitiveness of Japanese exports and the general attitude of countries trading with Japan. To the degree that procurement of raw materials is not shifted successfully to non-Communist sources, Japan will feel acutely the need for trade with China. The extent to which such trade must be diverted to dollar sources will determine the stringency of Japan's balance of payments position.

VI. JAPANESE ATTITUDES ON CONTROL OVER TRADE WITH THE SOVIET BLOC.

The Japanese tend to view the question of trade with the Soviet Bloc in terms of Communist China, rather than the Bloc as a whole.

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The Japanese would, of course, prefer as few restrictions as possible in the field of foreign trade; they realize, however, that in view of the threat posed to their national security by Communist aggression restrictions are unavoidable. There is evidence that Japanese Government officials wish to see a substantial resumption of trade with China.

Japanese willingness to impose controls after the Peace Treaty will be influenced by the similarity of those controls to those applied by other countries, the status of the Korean hostilities, and the nature of the control, particularly whether it takes into account the needs of Japan.

The Japanese have been generally willing to join in collective measures to check Communist aggression, and support for controls in line with those of other countries could be obtained though stricter controls would present a greater problem. If the Korean hostilities continue, there should be no difficulty in view of overriding security considerations in continuing the present controls. If hostilities end, however, problems might arise in retaining controls over trade with Communist China especially if those of other countries are less strict.

If alternate sources and markets are successfully developed in other areas, especially in Asia, economic pressures for resumption of China trade would be reduced. An export control program by itself would not seriously threaten the stability of the Japanese Government; however, if it were considered to represent a subordination of Japanese interests to foreign control, it would place the government in a difficult position and might lead to increased pressures in Japan to demand that United States economic and financial aid make up the loss sustained.

VII. ADMINISTRATION OF EXPORT CONTROLS.

Licenses are required for the export of all commodities included in revised Japanese Government export list (copy attached). All export license applications submitted to SCAP indicating a Communist destination are automatically denied. In questionable cases, guarantees against transshipment are sought in the form of end-use

checks

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checks, written statements, supervision by customs, amplified bills of lading, and essential supplies certificates when goods are destined for Hong Kong. Operational supervision of foreign trade is the responsibility of the Japanese Customs Service. Smuggling detection activities are conducted by the Japanese Maritime Safety Bureau. Penalties are provided in Japanese law for violations of export control regulations. Under the surveillance of SCAP, barter deals are concluded with the Chinese involving the exchange of (cotton textiles) for essential raw materials.

A. Improvements in Japanese Export Control Mechanisms.

Although the present system is relatively effective, there are certain features of the control system which need attention.

In addition to instruction in the techniques and facilities used in the administration of security export controls in the United States, the Japanese could also benefit from United States experience in such operations as handling hardship cases which may arise and dealing with political-economic ~~pressure~~ groups. The establishment of adequate investigative and intelligence facilities in Japan and abroad is of utmost importance. Attention should also be given to centralization of customs supervision and adequate penalties for violation of Japanese export regulations. It is important, too, that the Japanese ~~establish~~ *maintain* an adequate system for compiling and reporting trade statistics *on security items* *interested in report trade*.

B. Financial Controls.

No restrictions have been placed in Japan on Chinese Communist assets, and assets of other Soviet Bloc countries which are not believed to be substantial. To the extent that foreign currency escrow accounts have dollar counterparts they are subject to the Foreign Assets control of the United States Treasury. Assuming adequate export controls in Japan, it would appear that the imposition of blocking controls on Chinese and North Korean assets would have little if any effect on Japanese trade with Communist

China *(... Russia)*

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China and North Korea. Financial measures might be useful, however, in preventing undesirable triangular transactions involving strategic goods which do not enter Japan.

VIII. CONCLUSION:

The primary objective of the United States in Japan should be to secure an undertaking from the Japanese Government that it will adopt security trade control policies which will be fully consistent with and will contribute to the security interests of the free world. Japan's security control problems largely affect trade with Communist China whereas those of the other primary countries imposing controls are directed at Eastern Europe.

has been
Japan's controls over trade with China are among the most severe of those countries which impose such controls, in spite of the fact that Japan is more dependent economically on Sino-Japanese trade than any other area with the possible exception of Hong Kong. However valid this fact may be as a reason for relaxing present controls when China is not engaged in aggression, it should not serve as a basis for weakening Japanese controls while Chinese aggression continues.

ought not to be permitted to
It appears, on the basis of the analysis in section III, that the maintenance of the present strict controls by Japan need not be harmful to the Japanese economy, at least in the short run, and should have an important effect on shifting China's import requirements to less economic sources of supply. Although Japan faces some problems of alternate sources for materials such as coking coal and iron ore, and alternate markets for items normally sold in China, neither of these problems seems of sufficient severity to warrant a significant relaxation of controls over trade with China. In the event that a satisfactory settlement of the Korean hostilities develops and assuming no similar aggression elsewhere, it might not be inconsistent with the mutual security interest to relax present Japanese export controls so as to permit increased trade with China keeping in mind the relationship of such controls to those exercised by other major trading nations participating in the Coordinating Committee on security export controls.

in threat of aggression
in light of present

IX. RECOMMENDATIONS:

*Philippines
& Malaysia
imports to be lost
if imports from
China resumed*
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IX. RECOMMENDATIONS:

It is recommended:

1. That United States influence be exerted to the fullest degree necessary to maintain Japanese export controls at approximately the present levels as long as aggression in Korea continues and until a reasonable basis for an armistice is agreed on and there is reason to believe that it will be maintained.
2. That United States influence be exerted to the fullest degree necessary to insure that after the Korean hostilities are ended and an armistice is effective Japanese export controls are maintained at a level identical with or as closely comparable as possible to the strictest controls maintained by other major nations of the world against the Soviet Bloc including China.
3. That the United States assist Japan in the development of adequate export control procedures and in the establishment of an export licensing system sufficiently extensive to permit full control of Japanese trade with the Soviet Bloc.
4. That a United States survey team of security trade control specialists be sent to Japan to explain, in cooperation with SCAP, the purposes and general strategy of United States and international export control policies and procedures and to carry out the recommendations in 3 above.

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SECTION I

UNITED STATES POLICY RELEVANT TO THE
PROBLEM OF JAPANESE EXPORT CONTROLS.

It is United States policy to seek to obtain in Japan effective export controls which will contribute to the mutual security interests of the free world. A paragraph in the pertinent policy paper states that the United States with respect to Communist China should continue economic restrictions --- and intensify efforts to persuade other nations to adopt similar restrictions as related to developments in Korea.

The same policy recognizes the need for solidarity with our principal allies and for cooperation with other friendly nations in the security control effort. It further states that the United States should assist Japan to become economically self-supporting and to produce goods and services important to the United States and to the economic stability of the non-Communist area of Asia.

NSC Document 104/2, "United States Policies and Programs in the Economic Field which may affect the War Potential of the Soviet Bloc", provides that "The United States, in view of the Chinese Communist aggression in Korea, should press for the application of such international control measures as will be effective in diminishing the Chinese Communist potential for military aggression. Its efforts through the United Nations and other channels should be directed to seeking, on a cooperative basis, the application by the maximum number of friendly countries of such controls for this purpose as the United States considers would be in the common security interest".

United States policy as stated in NSC 91/1 and revised in NSC 104/2 paragraph 6, provides a basis for withholding from Japan United States products of primary or secondary strategic importance if similar products were being exported by Japan to the Bloc.

NSC 104/2

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NSC 104/2 also states that this country should press for additional measures in the field of international security controls, including more effective controls over transshipments and shipping with the purpose of prohibiting the carriage of embargoed goods.

The Battle Act (Public Law 213) is the most recent expression of United States policy in respect to the shipment of strategic materials to the Soviet Bloc. This legislation states that it is the policy of the United States to embargo certain categories of goods to prevent their export to the Soviet Bloc and further that United States aid should be withheld from countries exporting such goods. It is clearly stated that the Act shall be administered in such a way as to bring about the fullest support for any resolution of the General Assembly of the United Nations, supported by the United States, to prevent the shipment of certain commodities to areas under the control of governments engaged in hostilities in defiance of the United Nations.

United States policy recognizes that undue reliance on trade with the Soviet Bloc may constitute a security risk and accordingly states that the United States with the aid of friendly foreign countries should seek to develop alternative sources of supply of important basic materials now obtained from the Bloc. It underlines the importance of strengthening the bargaining position of countries which now rely on the Bloc for essential materials. The problem of alternative markets for goods which are being or would otherwise be sold to the Soviet Bloc is also noted in United States security control policy and policy regarding the Far East.

The United States is interested in attaining in Japan maximum output of strategic materials for the benefit this will bring to Japan and the free world. This policy, too, has a bearing on the problem discussed herein.

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SECTION VIII

CONCLUSION:

The primary objective of the United States in the security controls field in Japan should be to secure an undertaking from the Japanese Government that it will adopt security trade control policies which will be fully consistent with and will contribute to the security interests of the free world. So long as the Soviet Bloc countries, and particularly those which are engaged in aggression, threaten the security of the free world, Japan should cooperate in denying the Soviet Bloc access to goods and services which would contribute significantly to the war potential of the Bloc.

It must be recognized, however, that the Japanese security control problem differs from that which confronts the major nations of the world who have already adopted controls affecting trade with the Bloc. Western European trade controls---and they are the principal controls affecting trade with the Soviet Bloc---were designed primarily to deal with the question of trade with the European members of the Bloc. It was only after the aggression in Korea that those controls were extended to China. In some cases the controls were increased to a level above that applying in Europe.

Japan's trade, on the other hand, is normally not large with the European members of the Bloc. Its trade control problem vis-a-vis the Soviet Bloc is primarily the problem of controls over trade with China.

The United States has the strictest controls over trade with Communist China since it maintains an export embargo and has reduced imports very substantially. Japan's controls established by SCAP are almost equal to those of the United States in severity and prevent the export to China of all but a few products such as textiles, bicycles, sewing machines, and a few other consumers' goods.

Although Japan's trade in textiles has recently been the cause of some dissatisfaction in Hong Kong, whose textile trade with China has been substantially curtailed, Japan's over-all controls are

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considered more stringent than those of Hong Kong and the United Kingdom although the latter have considerably increased the stringency of their controls in recent months.

The United Kingdom, including Hong Kong, embargoes to Communist China all items on International Lists I, and II (exception tin plate), thirty items on List III, and sixteen other items which the United Kingdom normally regards as having a predominantly civilian use but which would be diverted to military purposes by a country engaged in military operations. In the implementation of the United Kingdom embargo list, the United Kingdom exercises discretion over items which it is felt in certain circumstances would not contribute to Chinese military strength. Under this control list, Hong Kong may therefore under special circumstances export certain of the listed goods and also other lesser and non-strategic items in such categories as chemicals and pharmaceuticals, non-metallic minerals, machinery, apparatus and appliances, dyeing, tanning and colouring substances, fertilizers, and textile fabrics. In contrast, Japan's export control list prohibits the export of all items in such categories, except those for household use, and cotton textiles, and limits Japan's exports to the small number of items mentioned previously.

The countries of Western Europe in the Coordinating Committee, other than the United Kingdom, have been generally controlling trade with Communist China on the same basis as trade with other Soviet Bloc countries. Thus they embargo items on International List I, quantitatively control items on I/L II, and report on shipments of I/L III. In actual practice, however, certain of the COCOM countries were more restrictive than required by COCOM agreement. The United Kingdom has recently proposed that all COCOM countries agree to increase their controls to the level of those of the United Kingdom and its colonies, and it is believed that most countries will accept the U.K. list with the exception of certain List III items.

While it is sometimes suggested that Japan should not be expected to maintain stricter controls against the Soviet Bloc than those maintained by other major industrial and trading countries,

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it should be noted that Japan's trade position in relation to the European members of the Bloc is more akin to that of the United States than that of Western Europe and its controls could similarly be more severe than those of Western Europe without having a significant economic effect on Japan.

In the case of China, however, a comparison of the Japanese position with that of other countries trading with China, indicates that Japan's claim to the economic necessity of its trade with China equals or exceeds that of any other supplier with the possible exception of Hong Kong. However valid this fact may be as a reason for relaxing present controls when China is not engaged in aggression, it should not serve as a basis for weakening Japan's controls now or after the effective date of the Peace Treaty if China's aggression is continuing or the worth of a truce is still open to question at that time. Japan's controls should serve rather to re-enforce the argument that the controls of other countries should be further tightened to limit China's war potential. If the present level of Japanese controls were to be significantly reduced prior to the end of the aggression in Korea, it is doubtful that Hong Kong's controls could be long maintained on any commodities in respect to which Japan's controls were the more lenient. Hong Kong's present inquiry with respect to Japanese exports of cotton textiles is illustrative of this point. As a matter of fact, it will probably be difficult to maintain different levels of controls in Japan or Hong Kong given the similarity of their situations in regard to trade with China.

It appears on the basis of the analysis in section 3 that the maintenance of the present strict controls by Japan need not be harmful to the Japanese economy, at least in the short run. The military procurement program in Japan in support of the Korean war should provide an adequate offset to any economic loss which may be attributable to the limitations on trade with China. There remain some problems of alternative sources for materials such as coking coal and iron ore normally received from the Asian mainland and of alternative markets for products normally sold in China although the latter problem may be solved to some extent by the procurement

programs

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programs contemplated for Japan. In the short run neither the supply nor market problem seems of sufficient severity to warrant a significant relaxation of controls over trade with China which would permit the acquisition by China of materials useful for supporting its efforts in Korea.

In the event that a "cease fire" is arranged in Korea and its maintenance seems sufficiently assured to warrant some confidence on this score, and assuming no similar aggression elsewhere, it would not be inconsistent with the mutual security interests to relax the present Japanese export controls so as to permit increased trade with Communist China. What relationship controls over trade with China should bear to those maintained over trade with the Soviet Bloc in Europe would need to be carefully considered. Major differences in these controls in respect to highly strategic materials would obviously permit their frustration by transshipment through the Soviet Bloc country in respect to which the more lenient controls were operative. On the other hand, recognizing that the Chinese economy is much less industrialized than that of the European members of the Soviet Bloc, it is clear that a policy which limits the war potential of China would warrant the withholding of material much less strategic in nature than would be the case in respect to the European members of the Bloc.

While the problem of the desirability of maintaining a different control list vis-a-vis trade with China would need to be carefully considered by the several nations interested in that trade, it is probable that as a minimum it should affect the items which are embargoed and limited quantitatively in the trade with the Soviet Bloc in Europe and, in addition, a further list for embargo or quantitative control until such time as the countries of the free world can be assured that Communist China will maintain peaceful relations with them.

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Appendix 2

Table 1. -- Japan's Trade with Soviet Bloc Countries, 1950 and January-July 1951
Value (in thousands of dollars)

Country	Exports				Imports			
	1950	1st quarter	2nd quarter	1951 July	1950	1st quarter	2nd quarter	1951 July
Mainland China, including Manchuria and Dairen....	19,643	2,564	2,496	481	39,542	9,243	5,906	2,062
Mongolian Republic.....	-	-	-	-	-	5	28	71
North Korea.....	-	-	-	-	-	-	-	-
U.S.S.R.	723	-	-	-	738	-	-	-
Czechoslovakia.....	1	-	-	-	717	1/	-	7
East Germany.....	-	-	-	-	2,335	1,422	-	1,422
Poland (including "Polish Germany")	-	-	2	-	880	994	2	996
East Austria.....	1/	-	-	-	-	-	-	-
Total Soviet Bloc.....	20,367	2,564	2,498	481	44,212	11,664	5,936	2,140
				5,543				19,740

1/ Less than \$500.

Source: Official Japanese trade data as reported by SCAP.

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Table 2. - Japan's Trade with Communist China,
1950 and Monthly 1951
(in thousands of dollars)

Year and Month	Exports	Imports
1950	19,643	39,542
1951		
January	371	1,162
February	984	2,899
March	1,209	5,486
April	914	2,365
May	1,582	1,909
June	-	1,221
July	481	2,043
Total January-July	5,541	^{1/} 17,085

^{1/} Monthly data here are revised figures, which causes total to vary slightly from that shown in Tables 1 and 4.

Source: Official Japanese trade data as reported by SCAP.

Table 3. - Japan's Export Trade with Communist China, ^{1/}1950

<u>Commodity Group and Subgroup</u>	<u>Quantity</u> (metric tons)	<u>Value</u> (1,000 dollars)
Food and Beverages	20	\$ 4
Fibers and Textiles	<u>1,605</u>	<u>1,157</u>
Cotton and cotton goods	63	180
Cocoon, silk and silk goods	2	77
Artificial fibers and products	234	402
Wool and woolen goods	*	2
Hard and bast fiber mfrs.	1,226	355
Textiles and products, n.e.c.	80	140
Wood and Paper	<u>124</u>	<u>58</u>
Wood manufactures	*	*
Paper for writing and printing	*	3
Other paper	6	15
Paper products	118	40
Animal and Vegetable Products, n.e.c.	<u>264</u>	<u>327</u>
Furs, hides and leather	2	24
Rubber and rubber manufactures	262	303
Animal and vegetable products n.e.c.	*	*
Oils, Fats and Waxes	16	4
Chemicals	<u>1,237</u>	<u>598</u>
Pigments, paints and varnishes	148	172
Drugs and pharmaceuticals	7	35
Industrial inorganic chemicals	945	266
Industrial organic chemicals	72	112
Chemical specialties and misc. items	49	11
Non-Metallic Minerals	<u>193</u>	<u>65</u>
Clay, clay products and pottery	50	2
Glass and glass products	1	4
Coal and related fuels	62	24
Abrasives	74	33
Other non-metallic minerals	6	2

Table 3. (cont'd.)

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<u>Commodity Group and Subgroup</u>	<u>Quantity</u> (metric tons)	<u>Value</u> (1,000 dollars)
Metals and Metal Products	<u>119,830</u>	<u>\$14,759</u>
Iron and steel mill products	118,844	14,271
Non-ferrous metals	16	4
Non-ferrous alloys	22	12
Metal manufactures, iron and steel	404	83
Metal manufactures, non-ferrous	4	5
Metal manufactures, n.e.c.	539	377
Metal consumer goods, n.e.c.	2	5
Machinery and Mechanical Appliances	<u>3,487</u>	<u>2,348</u>
Electrical machinery and communications machinery	2,329	1,408
Boilers, engines, turbines & parts	3	7
Transportation machinery and appliances and parts	366	167
Textile machinery, sewing machines and parts	302	390
Other industrial machinery and parts	180	154
Office appliances and printing equipment and parts	27	45
Civil engineering construction and mining machinery, appliances and parts	127	82
Miscellaneous machinery and parts	152	94
Miscellaneous Products	<u>104</u>	<u>323</u>
Scientific and professional instruments	80	291
Photographic and projection goods	1	5
Plastics, vulcanized fiber, cellophane, etc., and related products, n.e.c.	19	16
Pictures, printed matter and related items	*	*
Accessories	-	-
Miscellaneous	4	11
TOTAL	<u>126,880</u>	<u>19,643</u>

Figures may not add to totals because of rounding.

* Less than half the unit

1/Mainland China including Manchuria and Dairen

Source: Official trade data, as reported by SCAP. Tabulation was prepared by the Department of Commerce, Office of International Trade, Far Eastern Division.

Table 4. - Japanese Exports to Communist China ^{1/}
January-July 1951 by Commodity

Value (in dollars)	
Group and Commodity	1951 Jan.-July
Total exports	5,540,021
Food	363,219
Milk and cream, dried	114,818
Crustacea and mollusos, fresh, chilled, frozen, salted, dried	33,090
Fresh and dry vegetables, roots and tubers, not including artificially dehydrated	40,066
Seaweed, laver in retail containers, dried	175,245
Beverages and tobacco	-
Crude materials, inedible except fuel	-
Mineral fuels, lubricants and related materials	-
Animal and vegetable oils and fats	-
Chemicals	-
Manufactured goods classified chiefly by material	1,790,490
Bicycle tires, pneumatic	11,920
Manufactures of soft rubber	1,510
Compressed fiber plates	1,532
Building board of paper or of pulp, not impregnated	1,054
Paper and paperboard, coated, impregnated, vulcanized, etc.	5,324
Cigarette paper	44,379
Blotting paper and filter paper	1,718
Paper and paperboard, n.e.s.	10,829
Articles of pulp, of paper and of paperboard, n.e.s.	10,276
Cotton yarn and thread	97,052
Rayon filament yarn	797,101
Cotton fabrics	694,492
Silk fabrics	87,603
Rubberized and other impregnated fabrics and felts, except linoleums	628
Made up articles of textile materials, n.e.s.	5,138
Bricks, tiles, pipes of clay construction	18,126
Imitation pearl necklaces	110
Household utensils of iron and steel	479
Table and kitchen knives, forks and spoons, of base metals, including plated	249
Cutlery, n.e.s.	962
Manufactures of metal, n.e.s.	8

Table 4. Continued

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Group and Commodity	1951 Jan.-July
Machinery and transport equipment	<u>3,340,116</u>
Internal combustion, diesel and semi-diesel engines, other than aircraft engines	19,812
Office machines including typewriters	47,684
Sewing machines, industrial and household	288,180
Machine parts and accessories, except electrical	6,898
Electrical machinery, apparatus and appliances, n.e.s.	17,285
Bicycles, tricycles and parts	2,959,460
Machines and appliances, other than electrical	672
Printing and bookbinding machinery	125
Miscellaneous manufactured articles	<u>46,008</u>
Measuring, controlling and scientific instruments	1,365
Photo-printing paper, sensitized	2,670
Office supplies (not paper), n.e.s.	41,973
Miscellaneous transactions and commodities, n.e.s.	<u>188</u>
Live animals (not for food), n.e.s.	188

1/ Mainland China including Manchuria and Dairen.

Source: Official Japanese trade data, as reported by SCAP.

SECRET SECURITY INFORMATIONTable 5. - Japanese Export Trade by Area and by Commodities
for 1950 and 1951 (first six months)

<u>Area</u>	<u>1950</u>	<u>1951 (6 mo.) (in million dollars)</u>	<u>1950</u>	<u>1951 (6 mo.) (percentage of total)</u>
Asia	\$380	\$364.0	46.3	55.0
Europe	96	58.8	11.7	8.9
North America	210	107.6	25.6	16.3
South America	31	44.5	3.8	6.7
Africa	73	55.5	8.9	8.4
Australia & Oceania	<u>30</u>	<u>31.4</u>	<u>3.7</u>	<u>4.7</u>
Total	\$820	\$661.8	100.0	100.0

Commodity Groups

Food and Beverages	\$ 54	n.a.	6.7	n.a.
Fibers and Textiles	399	n.a.	48.6	n.a.
Wood and Paper	17	n.a.	2.1	n.a.
Animals and Vegetable Products	12	n.a.	1.4	n.a.
Oils, Fats and Waxes	8	n.a.	1.0	n.a.
Chemicals	16	n.a.	2.0	n.a.
Non-metallic Minerals	39	n.a.	4.8	n.a.
Metals and metal Products	159	n.a.	19.4	n.a.
Machinery	71	n.a.	8.5	n.a.
Miscellaneous	<u>45</u>	<u>n.a.</u>	<u>5.5</u>	<u>n.a.</u>
Total	\$820	n.a.	100.0	n.a.

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Table 6. - Japanese Imports from Communist China ^{1/}
January-July 1951 by Commodity

Value (in dollars)	
Group and Commodity	1951 Jan.-July
Total imports	17,211,124
Food	<u>2,328,993</u>
Meat and meat preparations	119
Dairy products, eggs and honey	7,134
Rice	936,616
Vermicelli	40
Fruits and vegetables (principally dried green beans)	151,949
Sugar and sugar preparations	1,168,688
Cocoa powder	189
Tea	4,222
Spices (cloves and cinnamon cassia)	60,036
Beverages and tobacco	-
Crude materials, inedible, except fuel	<u>12,837,810</u>
Hides, skins and fur skins, undressed	866,329
Peanuts ^{2/}	2,702,108
Soyabeans ^{2/}	1,274,462
Linseed (flaxseed)	188,511
Oilseeds, oil-nuts and oil kernels, n.e.s.	1,273,726
Crude rubber, including synthetic and reclaimed	10,108
Silk waste	320,115
Silk, raw	118,482
Sheep's and Lamb's wool	87,393
Fine animal hair	392,894
Horsehair and other coarse hair	2,389
Wool shoddy	5,200
Waste of wool and other animal hair	2,673
Cotton mill waste	307,388
Cotton, carded or combed	5,769
Ramie and ramie tow and waste	1,943,936
Vegetable textile fibers, n.e.s. and waste of such fibers	20,254
Waste materials from textile fabrics, including rags	31,603
Bone	1,007
Clay	4,625
Feldspar	170,357
Graphite	9,998

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Table 6.(continued)

Group and Commodity	1951 Jan.-July
Crude materials, inedible, except fuel (cont'd.)	
Other non-metallic minerals, crude, n.e.s.	15,150
Iron ore	470,118
Iron and steel scrap	448,181
Bauxite (aluminum ore) and concentrates	47,336
Bones, ivory, horns, hoofs, claws and similar products	52,292
Materials of animal origin, n.e.s.	595,542
Vegetable materials for plaiting	30,394
Plants and parts of plants for use in dyeing and tanning, whether ground or not	298,226
Natural gums, resins and balsam	40,734
Plants, seeds, flowers and parts of plants, n.e.s., mainly for use in medicines or perfumery	101,834
Seeds for planting	463
Lacquer, crude	998,213
Mineral fuels, lubricants and related materials	<u>234,437</u>
Coking coal	234,437
Animal and vegetable oils (not essential oils), fats, greases and derivatives	<u>1,371,466</u>
Castor oil	85,790
Tung oil	1,153,042
Oils from seeds, nuts and kernels, n.e.s.	132,634
Chemical elements and compounds	<u>51,909</u>
Prepared paints, enamels, lacquers, etc.	23,539
Essential vegetable oils	18,370
Animal glue	10,000
Manufactured goods classified chiefly by material	<u>358,292</u>
Envelopes, paper in boxes, packets, etc.	81
Albums and scrap books	181
Cellophane manufactures, n.e.s.	1
Silk fabrics	188
Fabrics, n.e.s. (including fabrics made of coarse hair and of paper yarn)	3,000
Embroidery, in the piece, in strips, or in motifs	7
Hat bodies, n.e.s.	1,760
Made up curtains, draperies, and made-up house- hold articles of textile materials, n.e.s.	4,368
Made up articles of textile materials, n.e.s.	1,838
Carpets, carpeting, floor rugs, mats and matting of wool and fine hair	4,903

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Table 6. (continued)

Group and Commodity	1951 Jan.-July
Manufactured goods classified chiefly by material (cont'd.)	
Rush mats ^{3/}	267,797
Nickel and nickel alloy, wrought	60,152
Tin and tin alloys, (including tin solder) unwrought	8,997
Ferro-manganese	5,019
Machinery and transport equipment	-
Miscellaneous manufactured articles	28,217
Clothing	5,020
Footwear, wholly or mainly of leather	2,400
Articles of basketware or of wickerwork, n.e.s.	19,724
Office supplies (not paper), n.e.s.	41
Cloissone, n.e.s.	1,032
Miscellaneous transactions and commodities	-

1/ Mainland China including Manchuria and Dairen

2/ Although included under "crude materials, inedible", these products are used for food purposes in Japan.

3/ Although listed under "manufactured goods", believed to be mat rush, a raw material.

Source: Official Japanese trade data, as reported by SCAP.

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Table 7. - Japanese Prewar Imports of Selected Commodities,
Total and from China 1/
(Average 1933-37)

Commodity	<u>Total Imports</u> (Metric tons)	<u>Imports from China</u>	
		(Metric tons)	(Percent of total)
Coal	<u>2/</u> 4,621,439	<u>2/</u> 3,261,644	71
Iron ore	2,982,570	979,064	33
Pig iron	<u>3/</u> 931,821	<u>3/</u> 379,750	41
Magnesite <u>4/</u>	146,531	<u>5/</u> 146,127	99
Salt	1,297,727	555,981	43
Ramie fiber	12,222	12,038	98
Soybeans	721,069	532,033	74
Peanuts	11,778	11,677	99
Oilcake	551,478	477,640	87

1/ Includes Manchuria and Kwangtung.

2/ Principally coking coal but includes other coal since coking coal was not differentiated in prewar trade statistics.

3/ Average 1933-36.

4/ Includes dolomite since prewar trade statistics group dolomite and magnesite under one heading.

5/ Imports from Manchuria averaged 71,636 metric tons, which was principally magnesite, while the balance of imports from Kwangtung is believed to have included a greater proportion of dolomite.

Source: Based upon official Japanese trade data.

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January - July 1951

Source: Official Japanese trade data as reported by SCAP

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Table 9. -- JAPAN'S OUTPUT OF STRATEGIC MATERIALS 1952 and 1953

Commodity	Production thousands of metric tons		Civilians Requirements		Surplus for Defense	
	1952	1953	1952	1953	1952	1953
Steel (crude)	7,6000.0	9,000.0	4,400.0	4,700.0	3,200.0	4,300.0
Aluminum	65.0	103.8	35.0 to 40.0		25.0 to 30.0	63.8 to 68.8
Sulfur	180.0	225.0	160.0	180.0	20.0	45.0
Refined copper	120.0	130.0	70.0	80.0	50.0	50.0
Cement	6,800.0	7,000.0	5,800.0	6,000.0	1,000.0	1,000.0
Caustic soda*	400.0	450.0	350.0	400.0	50.0	50.0
Soda ash*	575	640.0	570.0	640.0		0
Petroleum products* (gasoline, kerosene and lubricating oil)	(in million bbls.)				1.0	1.0

* Japan's position with respect to these commodities is presented here only as possibilities not necessarily as expectations likely to be realized.

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SECTION II

PRESENT JAPANESE EXPORT CONTROL POLICY.

Development of Japanese Export Controls. When the United States Government assumed the financial and administrative responsibilities for a relief and economic recovery program in Japan immediately after World War II, it was recognized by SCAP and the interested agencies in Washington that trade between China, then non-Communist, and Japan was an important factor in the attainment, by Japan, of a viable economy with a reasonably adequate standard of living. By 1949, however, when Japan was, for the first time since the end of the war, in a position to export goods in any significant quantity, the Communists had gained control of the Chinese mainland, and it was clear that, in the interest of security, strategic goods should not be permitted to flow to that area. Reconciling these conflicting considerations, the United States' policy with respect to this trade, as set forth in an exchange of telegrams between SCAP and the interested Washington agencies in December 1949 and January 1950, provided that exports of primary strategic items (then called 1-A) to the Soviet Bloc (including China) were to be prohibited, and shipments of secondary strategic commodities (then called 1-B) to these areas were to be screened and strictly limited. Other goods were to be exported freely to China and other Communist areas.

On June 25, 1950, immediately following the outbreak of the Korean war, exports to Communist China from Japan of all goods of a critical and strategic nature were prohibited. All 1-A items were already being denied Communist China, and this action expanded the embargo to include all 1-B items. The ban was not made retroactive, and therefore some shipments of 1-B items were made after that time under licenses validated prior to June 25. Shipments of 1-A items to Hong Kong were prohibited (as had been the case previously), and exports of 1-B items were limited to goods needed for consumption within Hong Kong. Consumer goods and other non-strategic items continued to flow freely to China and Hong Kong, and such exports enabled Japan to procure a moderate quantity of essential foods and industrial raw materials from China, thus tending to reduce Japan's reliance upon the United States for economic assistance. Trade with

the U.S.S.R.

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the U.S.S.R. and its European satellites was controlled similarly, but since Japan's trade with these countries under normal circumstances was relatively unimportant, controls applied to such trade had no significant impact on Japan.

With the entry of the Chinese Communists into the Korean War, the Japanese Government, on December 6, 1950, banned exports to China, North Korea, Hong Kong, and Macao of all raw materials and semi-processed and manufactured goods subject to licensing controls in Japan. The Japanese Government also invalidated all export licenses for those areas which had been approved before that date. The Japanese Export List was enlarged during December 1950 and January 1951 and other steps were taken to tighten Japanese controls. Shipments of controlled goods to Hong Kong were made contingent upon receipt of certification from the Hong Kong Government that such goods were for essential use in Hong Kong and not for transshipment to other areas. Goods landed in Japan for transshipment were also made subject to export licensing.

During the period since January 1951 the list of commodities subject to Japanese licensing controls has been further expanded several times and now includes virtually all commodities except the following: foodstuffs (other than staple foodstuffs), raw silk and silk fabrics, woolen fabrics, bicycles, household-type sewing machines, watercraft under 18 feet, hand-powered agricultural machinery, hand-operated office machinery, household utensils, toys, stationery supplies, cigarette paper and Japanese handmade paper, some cellophane products, household remedies, and miscellaneous adornments for personal use. Some of the commodities on the Japanese Government Export Control List, notably many types of cotton and rayon textiles, were, however, placed on the list in order to prevent unreasonably low export prices rather than because of destination controls. Several items not covered by the latest available official list are reported to be under consideration as future additions; these include silk fabric, secondary textile products (handkerchiefs, scarves, woolen hosiery goods), pottery and earthenware for table use, enameled ironwares, canned tuna, frozen tuna, and sewing machines.

Trade between Japan and Communist China is conducted on a barter basis through the use of escrow or back-to-back letters of

credit

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credit. SCAP approval is required for such transactions.

The general question of Japan's export controls was reviewed in an exchange of telegrams between SCAP and the Departments of State, Treasury, and Army in February and March of 1951. The outgoing message to SCAP indicated that because of the prospective peace settlement it would be politically undesirable to compel Japan to impose export controls more restrictive than those currently in force in Japan unless additional measures were recommended by the United Nations or adopted by other major free nations. SCAP's reply concurred in the political undesirability of compelling Japan to adopt economic measures going beyond the export controls then in effect except in reciprocal action for similar measures taken against Japan. It was agreed, therefore, that no substantial change would be made in the existing export controls at that time.

Since this exchange of views the United Nations has passed a resolution calling on its members to prohibit trade with China in certain categories of goods. In addition, the United Kingdom, Hong Kong and the countries of Western Europe have substantially increased their controls over trade with China. They are still less restrictive than those of Japan.

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SECTION III

ANALYSIS OF JAPANESE TRADE WITH THE SOVIET BLOC.

Exports -

Japan's exports to the Soviet Bloc, including Communist China, were valued at \$20.4 million in the calendar year 1950, and at \$5.5 million for the period January-July 1951 (Appendix 2, Tables 1 and 2). The 1950 exports represent about 2.5 percent of the total value of exports and those of the first seven months of 1951 less than one percent of total exports.

The 1950 exports to Soviet Bloc area were almost entirely to China; only \$723,000 of goods were shipped to the U.S.S.R. (wooden boats and ships during the first part of the year), and one small shipment of agar-agar went to Czechoslovakia. In a Japanese-Russian trade agreement proposed in 1947 but never concluded, the Soviets had planned to import rolling stock and steel purse seiner boats. In the first seven months of 1951, essentially all Japanese exports to the Soviet Bloc went to China; no shipments were made from Japan to the U.S.S.R. or North Korea, and only one small shipment to a European satellite country (\$2,411 worth of Japanese paper to Poland).

Exports to Communist China in 1950 (Appendix 2, Table 3), which amounted to \$19.6 million, consisted of a great variety of manufactured items, with two groups, however, - metals and metal products and machinery - accounting for more than 80 percent of the total value. Iron and steel mill products amounted to \$14.3 million with galvanized sheets, steel plates and sheets, steel bars and steel pipes and tubes the items exported in largest quantities. Electrical and communications machinery, valued at \$1.4 million, constituted the major machinery exports. In addition to exports of these two groups, Japanese exports to China consisted largely of fibers and textiles (chiefly rayon filament, cotton yarn and fabrics, and used gunny bags); rubber and rubber manufactures (of which automobile tires and tubes constituted a major portion); industrial inorganic chemicals (of which red phosphorus was the major item); pigments, paints and varnishes (primarily textile dyes); and scientific and professional instruments (microscopes, X-ray equipment and other surgical and related equipment).

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As a result of controls established in December 1950 (after the intervention of Communist China in the Korean War) and tightened in early 1951, Japanese exports to Communist China during the first seven months of 1951 (Appendix 2, Table 4) were reduced in amount as compared with 1950. Exports have also been of a different character than those of 1950; with the prohibition of shipment of metals, most types of machinery, chemicals, and many other commodities, exports to China in recent months have been confined to a relatively few permitted items. Bicycles, tricycles and parts, sewing machines and parts, textile products (cotton fabrics and yarn, rayon filament, and silk fabrics), fishery products (seaweed and trepang) and dried milk have constituted the major exports. Smaller quantities of paper products, rubber manufactures, office machines, small engines, electric fans, pencils, tiles and bricks, household utensils, and vulcanized fiber bars and sheets (cellulose products used for slippers, etc.), were also shipped to China.

Data covering Japanese exports to China in August 1951 indicate no exports of any kind, but data for September and October are not yet available. An October 17th report from USPOLAD, Tokyo, however, states that two barter deals providing for exports of cotton goods in exchange for salt and coking coal have been approved since September 22nd and that another transaction involving similar exports in exchange for magnesia clinker is under consideration. The first transaction approved involves 138,000 yards of grey cotton sheeting in exchange for 3,520 tons of Chinese salt and the second 24,200 tons of coking coal in exchange for 1,100,000 yards of grey sheeting valued at about \$400,000 each way. The transaction under consideration is for 3,000 tons magnesite clinker against 840,000 yards of grey sheeting.

In addition to the direct exports to the Soviet Bloc, including Communist China, it is estimated that during 1950 about half (26.5 million) of Japan's exports to Hong Kong were re-exported to Communist China as the ultimate destination.^{1/} Although no accurate estimate can be made of the commodities that were re-exported through Hong Kong, Japan's exports to Hong Kong in 1950 consisted of a wide

variety

^{1/} Japan exported to Hong Kong in 1950 goods valued at \$53.3 million (6.5 percent of total Japanese exports). Of Hong Kong's total exports in 1950, about 45 percent, by value, went to China and Macao.

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variety of manufactures with, however, rayon filament and fabrics, and cotton yarn and fabrics constituting more than 40 percent of the value of total Japanese exports to Hong Kong. Japanese exports to Hong Kong which are subject to Japanese licensing during the period January-July 1951 ^{2/} probably are not re-exported to Communist China because of the institution of export licensing controls in Japan which prohibited the export of goods destined for re-export.

The Short and Long Run Problem
for Markets for Japanese Goods -

In the short run Japan's prospects for expanding its exports appear good. Special procurement for Korea, United States procurement in Japan of defense supplies and equipment in support of United States defense efforts, and South and Southeast Asian development programs, together with the western rearmament effort which has created shortages in specific commodities that Japan can supply almost certainly will lead to an increase in Japanese exports. The conclusion of the Occupied Japan-Sterling Trade Area financial and trade agreement on August 31, 1951, and recent negotiations of trade agreements with countries in other areas providing for higher levels of trade indicate that in the short run, at least, Japan can look forward to an expanded export market for its goods.

During calendar year 1950 Japan's exports were valued at \$820 million excluding special procurement of commodities for Korea estimated at \$91 million. (Appendix 2, Table 5.)

As estimated above the impact of a complete cessation of Communist Chinese purchases in Japan in the short run, if considered in terms of the volume of trade in 1950 which is shown in tables 1-7 would appear to be relatively minor. It would appear that the principal effect on Japan's exports would be the loss of markets for metals, metal products, and machinery. Such purchases by China in 1950, the only year in which substantial purchases were made by

Communist

^{2/} Japanese exports to Hong Kong in the first seven months totalled \$29.7 million (3.8 percent of total Japanese exports).

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Communist China from Japan in the postwar period, were equal to about seven percent of the value of Japan's total exports of these commodities. The impact on certain Japanese industries of the loss of these markets is, however, largely compensated by factors directly attributable to the Korean hostilities, and to the continuance of rearmament in the western world.

Japan's total exports, including commercial and special exports, may well reach a level in excess of \$2.2 billion in calendar year 1952. It is estimated that special exports consisting of special procurement for Korea and possible United States procurement of supplies in support of the United States defense effort may reach about \$350 million in that year. Commercial exports, which would make up the remainder, will total about \$1,850 million. Commercial exports at this level in 1952 would mean an expansion in Japanese commercial trade by about 40 percent over the annual rate of Japanese exports for the first six months of 1951. A very large portion of the expansion in the total exports is expected to be with South and Southeast Asia, although trade with other area including the United States is expected to expand over present levels. It is estimated that in 1952 Asia, excluding Communist China, will purchase about \$925 million worth of goods or roughly one-half of the estimated total commercial exports in this year. Although this figure represents a tripling of exports to this area in 1950, table 8 shows that Asiatic purchases from Japan during the first six months of 1951 were at an annual rate of \$730 million or nearly double those for 1950; the above projections of exports to Asia in 1952, therefore, appears not unreasonable. Exports to areas other than Asia in 1952 are estimated at double the 1950 rate. Despite the magnitude of increase in exports thus envisaged, it is believed that present world conditions combined with the recognized resourcefulness of Japanese traders who will be re-entering world markets in large numbers by 1952, justify an optimistic view of Japan's export prospects. Japan has the industrial capacity to reach the level of output necessary to achieve the export levels mentioned above. There may be certain difficulties, however, in obtaining raw materials from non-United States sources of supply, and Japan probably will require some United States assistance in order to obtain sufficient supplies of raw materials required to reach the levels of production assumed in the above projection.

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The Significance to the Chinese Domestic
Economy, and War Effort, of Trade with Japan.

Japan, as an industrial nation and by its location and past economic relations, is of particular importance to China and to China's prospects for development. China requires industrial imports, which Japan can furnish. Much of the existing industrial plant in China is of Japanese origin, and therefore requirements for maintenance and expansion of existing plant would best be secured from Japan. The proximity of Japan to China creates trading advantages, such as lower freight rates, quicker deliveries, and greater familiarity with market conditions. Moreover, Japan represents a potentially large market for China's exports, and the only feasible market for certain Chinese export products, such as iron ore, coal, and salt. Since China has limited export markets and relies on export earnings to finance essential imports, the export market in Japan is also important to China's development.

Owing to the large Chinese requirements for capital goods imports and their limited availability in the Soviet Union, the increasing import dependence of China upon the Soviet Union tends to compromise the economic programs of both countries and may thus become a potential source of economic friction. The unrestricted expansion of Sino-Japanese trade would eliminate most of these difficulties, and such expansion therefore probably has a high priority among the foreign policy objectives of China and the Soviet Bloc.

As previously noted, Sino-Japanese trade during the post-war period has been negligible, due in part to the political chaos in China and to the low level of industrial output and commercial foreign trade of Japan. With the consolidation of political control in China by the Chinese Communists in 1949 and with the rise in Japanese production, Sino-Japanese trade increased markedly during 1950 and trade negotiations in progress before the imposition of Japanese trade controls held prospects for a substantial increase in trade in 1951.

Estimates

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Estimates based on Chinese Communist trade data ^{1/}indicate that Communist China's foreign trade in 1950 included imports of \$525 million and exports of \$575 million, and had increased during the year until in the last quarter of 1950 imports were at an annual rate of \$975 million and exports \$725 million. Japan's exports to China were less than one-tenth of China's total imports both in the annual trade and in the expanded level of trade in the last quarter of the year. However, China secured from Japan nearly one-fifth of her imports of the types of industrial products which figured on Japan's exports to China.

Japan's exports to China in 1950 did not contribute directly to China's military resources. They were important, however, in enabling rehabilitation and maintenance of industrial plant and a consequent increase in the industrial output at the disposal of the Chinese Communists. In view of the very limited capabilities of Chinese industry, China must depend on the Soviet Union to meet its deficiencies of military equipment, present deliveries of which, if not entirely on a grant or loan basis, are obviously not limited by China's ability to pay for them. The resources which China contributes to its own war potential are primarily non-military in character, such as food, clothing, transport, and similar goods and services. Except for modern transport facilities which are limited, essential to the war effort and greatly dependent upon imported materials, the influence of imports upon China's war potential lies primarily in promoting the strength of the economy and the fiscal position of the government.

Japan's exports to China in 1951 were too small to be of great significance. Textile exports were a negligible addition to China's total textile supply. The export of bicycles was probably of greater importance; a major means of local transport, bicycles have been in demand by local government administrations and the military for liaison purposes.

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^{1/} cf. IR-5677, A New Estimate of Communist China's Foreign Trade in 1950.
CONFIDENTIAL, October 1951.

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An examination of the composition of China's imports in 1950, based on Chinese Communist trade data ^{1/}, may provide an indication of the types of goods which China would presumably attempt to obtain from Japan if controls did not prevent such trade.

Chinese Imports in 1950, not available from Japan

(Millions of Dollars)

Raw Cotton	\$ 94.8
Crude Rubber	60.5
Petroleum	55.0
Gunny Bags	15.5
Newsprint	6.6
Sugar	10.5

Sub-Total \$242.9

Chinese Imports in 1950, available in Japan

Copper	9.3
Iron and Steel	59.6
Machinery	43.4
Vehicles, Vessels	17.0
Misc. Metal Manufactures	32.0
Medical Supplies	21.2
Dyestuffs	10.6
Ammonium Sulphate	10.3
Industrial Chemicals	12.3
Rubber Tires	6.0

Sub-Total \$221.7

Other

60.9

TOTAL \$525.5

The character of Communist China's 1950 imports suggests that in the event of an expansion in Sino-Japanese trade the Chinese would expect to import from Japan chiefly capital goods and fabricated products for production. While the Chinese Communists are likely to

continue

1/ cf. IR-5677, A New Estimate of Communist China's Foreign Trade in 1950.
CONFIDENTIAL, October 1951.

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continue to permit small imports of certain consumer manufactures, such as bicycles, it is not probable that Japan can significantly expand its exports to China on the basis of these commodities alone. Although China has imported small quantities of textiles in 1951 owing to the very great increase in military requirements for textiles, it is unlikely that under normal conditions China would permit textile imports. China's cotton textile production in 1951 will probably achieve an all-time record level, and were it not for military needs, China would very likely be a net exporter of cotton textiles, as in 1950.

The Chinese Government now exerts strong controls over the terms, direction, and composition of China's foreign trade. In 1950 State companies accounted for 53 percent of total exports and 71 percent of total imports; the government also set the terms of foreign trade for private firms, including the establishment of floor prices and the restriction of imports to a small list of permitted commodities. It is clear that the terms of Sino-Japanese trade would be established by government policy decisions and not by the market decisions of individual traders.

The considerations influencing Chinese Communist trade policy vis-a-vis Japan would presumably relate to both the immediate and long-run economic objectives. It is highly unlikely that the Chinese Communists will abandon the goal of industrialization which can only be attained through the expansion of exports to finance imports of capital goods and industrial raw materials. If desired imports are restricted owing to limited availabilities within the Soviet Bloc and to export controls in Japan and Western industrialized countries, China may be expected to attempt to subvert such controls. Possibly, China may accept non-strategic commodities for a limited volume of exports in order to maintain trading channels. At the same time, barter trade offers will probably be made providing for extremely favorable prices in the exchange of Chinese raw materials for Japanese capital goods, in the hope that these potential advantages of unrestricted Sino-Japanese trade will undermine Japanese resolve to maintain export controls, particularly as the expansion of Japanese industrial output creates problems of raw material sources and foreign markets.

A realistic appraisal must concede that an increase in Sino-Japanese trade would result in substantial economic advantages to

both

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both countries. China is seeking expanded export markets and, as a result of its development program, has placed a high value on capital goods imports. Since Japan, in turn, is seeking sources of raw materials and export markets for its manufactures, this identity of interests should result in a wide range of trading opportunities for both countries. Although the Chinese Communists, as a totalitarian government, will undoubtedly set the terms at which China will trade, it may be expected that, in the face of the pressing import needs and the problems of export markets, China would be more concerned with expanding the volume of trade than with restricting trade to obtain better terms.

Imports -

Imports into Japan from the Soviet Bloc including Communist China amounted to \$44.2 million in 1950 and to \$19.7 million in the first seven months of 1951 (Appendix 2, Table 1). Imports from these areas constituted 4.6 percent of total imports in 1950 and 1.4 percent of total imports in January-July 1951. Most of this trade was with China which supplied imports of \$39.5 million in 1950 and \$17.2 million in the first seven months of 1951.

The major portion of the 1950 imports from China consisted of soybeans, peanuts, iron ore, coal, ramie, oil cake and salt. In the first seven months of 1951, peanuts, soybeans and oilseeds accounted for about one-third of the imports from China, with oils, fats and waxes (chiefly tung oil), sugar, rice, dried green beans, ramie, fiber, matrush, bristles, animal hair, hides and skins, raw wool, waste cotton and waste silk, gallnuts, lacquer, coal, iron ore, fluorspar, and scrap iron and steel the other important commodities recorded as imports from China (Appendix 2, Table 6).

The satellite countries of the Soviet Bloc in Europe provided Japan with imports valued at \$3.9 million in 1950 which consisted largely of potash fertilizer from Eastern Germany and Poland, and magnesite from Czechoslovakia. In the first seven months of 1951, potash fertilizers valued at about \$2.4 million were the only important imports from the Soviet Bloc in Europe. In addition, very small quantities of other commodities were imported from Czechoslovakia, Eastern Germany, and Poland (creosol, publications, and chocolates).

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The Mongolian Republic, an Asiatic satellite of the Soviet Union, provided Japan with cashmere wool valued at \$104,000 in the period January-July 1951.

Although in 1950 Japan imported coal valued at \$738,000 from the U.S.S.R. (Sakhalan Island), in the first seven months of 1951 no imports of any kind were supplied by the Soviet Union.

In 1950 Japanese imports from Hong Kong, an important trans-shipment point for goods moving to and from China, were valued at \$558,000 and for the first seven months of 1951 at \$3.6 million. About 40 percent of the imports in the latter period consisted of peanuts, beans, iron ore and scrap iron and steel, of which a considerable portion may have originated on the Chinese Mainland. ^{1/}

Under present world conditions, procurement of adequate supplies of certain raw materials to meet the requirements of an expanding industrial economy has become a major problem for Japan. Since some of Japan's basic industrial raw materials and foodstuffs have historically been supplied by areas of the Asiatic mainland now under Communist control, Japanese business circles and industrial leaders have persistently shown great interest in developing trade with the area and pressed the Japanese Government for re-opening of China trade. In the pre-war period Japan depended heavily upon China (including Manchuria) for coking coal, iron ore, pig iron, and salt. In addition, large quantities of soybeans, peanuts, and fertilizer (oilcake) were imported from this area. In the period 1933-37, for example, more than 70 percent of Japan's total coal imports (nearly all of the coking coal) and about one-third of its iron ore imports were from sources now within Communist China. The pre-war dependence upon this area for soybeans, peanuts and oilcake fertilizer was even heavier (Appendix 2, Table 7).

In the

- ^{1/} The statistics used in this report are official Japanese trade statistics covering goods passing through Japanese customs. Customs declarations usually indicate the country of origin, but for some commodities traded through Hong Kong and other trading areas the actual country of origin is unknown.

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In the early post-war period Japanese imports from China were much smaller than in pre-war years due to the relatively low level of economic activity in both Japan and China. In late 1949 and 1950, however, as Japan's recovery made great strides forward and its increased production required larger imports of raw materials, more attention was focused on trade with China. With this increased economic rehabilitation and expanded trade, mainland China supplied the following percentages of certain important Japanese imports in 1950: 69 percent of coking coal; 14 percent of iron ore; 13 percent of salt; and 53 percent of soybeans (Appendix 2, Table 8).

In 1951, due in large measure to tightened export restrictions which cut off Japanese manufactures most desired by China and retaliatory measures taken by China, Japanese imports of raw materials, foodstuffs and fertilizer from China have been reduced. Trade data for January-July 1951 show China as the source for only 2 percent of Japan's coking coal imports and for 2 percent of its iron ore imports. No salt was obtained from this area. ^{1/}

Sources and Costs of Alternative Imports. In the following pages an attempt will be made to estimate the cost, in dollar terms, of finding alternative sources for Communist supplies of raw material imports.

As discussed in Section 3, only \$3.9 million of Japanese imports from the Soviet Bloc came from non-Chinese sources. These imports consisted largely of potash fertilizer and magnesite. Of the total potash fertilizer imported by Japan in 1950 from all sources, less than half appears to have come from Eastern European sources. There are other known availabilities in Western Europe which, during 1950, exported about the same quantity of potash as was imported from Eastern Germany. At the present time, it would appear that reduction in imports from Eastern Germany might result in some reduction in exports from Western Europe. However, in view of increasing production in Western Europe and the United States, it is

possible

^{1/} Since some imports recorded as from Hong Kong probably originated in China, the above figures tend to underestimate somewhat China's present role. If it is assumed, however, that all of the shipments of coking coal recorded as from Hong Kong in the first seven months of 1951 are of Chinese origin, Japanese imports of coking coal from China are still only two percent of the total imports of this commodity. No salt was reported as imported from Hong Kong.

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possible that supplies from non-Communist sources can replace Eastern European supplies without appreciably adding to overall costs, if the need should arise. Magnesite imports from the area were very small.

Of the total imports from China in 1950, foodstuffs equalled \$19.8 million and represented approximately 50 percent of all the imports from China. Of this \$19.8 million, imports of soybeans totalled \$13.5 million, and of peanuts \$3.4 million. It is probable that the United States could replace, without any additional significant cost to Japan, the supplies of soybeans and peanuts which have been received from China in the post-war period. Japan's receipts of foodstuffs from China have been considerably less in recent years than formerly. Alternative supplies for normal imports could not be readily found.

Of the major raw materials formerly imported from the Chinese Mainland, coking coal and iron ore are of primary importance to Japan. In 1950, the level of such imports from China was 478,608 metric tons of coking coal (70 percent of total Japanese imports) and 207,903 metric tons of iron ore (14 percent of total Japanese imports).

It has been estimated that in 1951 Japan will require 2.0 million tons of coking coal; and in 1952 2.7 million tons. China could potentially supply the entire Japanese coking coal requirement. In 1950 the price of Chinese coking coal averaged about \$12 per ton c.i.f. to Japan. If Japan obtained its entire coking coal import requirements from China, the cost to Japan at the most recent c.i.f. prices would be:

1951 - 2 million tons at \$18 per ton - \$36 million c.i.f.
1952 - 2.7 " " " \$18 " " - \$48.6 " c.i.f.

If coking coal imports will have to be obtained from other sources, costs to Japan would be significantly greater. It has recently been reported that India is willing to supply one million tons of coking coal annually at \$20 per ton, c.i.f. Japan. United States coal has been quoted at \$29 per ton, c.i.f. Japan. It is doubtful whether India can, in fact, deliver such a large volume of coal, and a figure of 500,000 tons annually might better be used as a reasonable estimate. There are no other presently developed

Sources

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sources of coking coal in Asia, and in the absence of these sources the remainder of Japanese coking coal requirements would have to be imported from the United States.

The cost to Japan of acquiring this coking coal from non-Chinese sources in the quantities and at the prices mentioned for 1951 and 1952 is as follows:

1951 -	500,000 tons from India at \$20 per ton -	\$10 million
1951 -	1,500,000 " " U. S. " \$29 " "	<u>\$44 "</u>

Total Cost in 1951 - \$54 million

1952 -	500,000 tons from India at \$20 per ton -	\$10 million
1952 -	2,200,000 " " U. S. " \$29 " "	<u>\$64 "</u>

Total Cost in 1952 - \$74 million

The real cost to Japan of obtaining coal from the United States in these years is less than that shown above because United States coal is of somewhat higher quality than Chinese coal. To utilize United States coal most efficiently however, the Japanese steel industry probably would require some adjustment in existing equipment although such adjustments would probably not be serious. Japanese imports of coking coal from non-Communist sources (excluding quality factor) will cost about \$43 million more during the two year period 1951 and 1952 than coal imported from Communist China.

It is estimated that Japan will require 3.5 million tons of iron ore for 1951, and 4.9 million tons of ore in 1952. China could probably, under present conditions, supply a maximum of 600,000 metric tons of ore to Japan because of its limited iron ore production. To produce more, large scale investments that would not become operative until after 1952 would be necessary. The c.i.f. price of Chinese iron ore---about \$15 per ton at present--- is not lower than that of iron ore from other Asiatic sources but compares favorably with the c.i.f. price of American ore at \$26.00 per ton. Under these circumstances, Japan will incur additional costs only to the extent that it will be necessary to substitute American ore for Chinese ore. If any Japanese investment proves necessary to develop Southeast Asiatic sources further, additional costs will, of course, accrue.

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Japan has already contracted for its 1951 iron ore requirements of 3.5 million tons. Under these arrangements it is to receive 2.8 million tons of ore from non-Communist Asiatic sources (India, Malaya, and the Philippines) and the remainder---700,000 tons of ore from America. For 1952 Japan has already contracted for 2.8 million tons of ore from non-Communist Asiatic sources. It may receive the remainder from America, or it is possible by a relatively small investment of 2.5--3.0 million dollars to increase output from Hong Kong, Malaya, and Goa by 1.7 million tons within a short time.

For 1951 any additional cost of iron ore to Japan arises only from the acquisition of 600,000 tons of American ore in comparison to the cost of such ore from Chinese sources:

Cost of 600,000 tons of American ore to Japan:
 @ \$26 per ton = \$15,600,000

Cost of same quantity of Chinese ore:
 @ \$15 per ton = \$ 9,000,000

Difference - - \$ 6,600,000

For 1952 even if China iron ore were available a potential maximum import of 600,000 tons will again be assumed could be exported and any remainder would have to come from other sources. Assuming that Malaya, Goa, and Hong Kong do not produce more than in 1950, and that other Asiatic sources maintain their 1950 level, the balance will have to come from America. Hence, additional cost only arises on the 600,000 tons, which China could have supplied. As computed above their additional cost would equal 6.6 million dollars.

If the various Asiatic sources are developed with an investment estimated to cost about 2.5-3.0 million dollars, they would be capable of producing 1.7 million tons and only 400,000 tons would be required from America. The cost differential of this 400,000 tons produced from America rather than from China would be \$4.4 million at present prices. To this should be added in the short run the investment cost even though in the long-run Japan will be repaid. Under this assumption the cost differential for 1952 would be 7.0-7.5 million dollars. However, this 2.5-3.0 million dollars development of non-Chinese Asiatic sources, would make Japan more independent from

Chinese

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Chinese iron ore in the long run. Under either of these assumptions the total additional cost to Japan in the immediate future of iron ore from non-Chinese sources would be 13-14 million dollars.

The difference in the cost of all these imports from sources other than the Soviet Bloc thus equals:

	<u>1951</u> (in million \$)	<u>1952</u> (in million \$)
1. Coking Coal	18.00	25.00
2. Iron Ore	6.5	7.5
3. Allowance for minor items	<u>5.0</u>	<u>5.0</u>
	29.5	37.5

The total difference in cost over the two years is thus about 70 million dollars. This is a real cost increase for the Japanese economy arising from loss of China as a source of imports, which if passed on to producers of iron and steel, may make Japanese industry less competitive in world markets. This might reduce the volume of Japanese exports—especially in the long-run, although this might possibly be compensated by defense in the short-run.

Since many of the commodities needed by Japan are in heavy bulk products and can be obtained only from areas considerably more distant from Japan than is China, the volume of shipping required to transport Japan's foreign commerce has increased considerably. It has been estimated that an additional 250,000 gross tons of shipping will be required to carry goods to and from other area. Japan has the capacity to add 530,000 tons to its shipping each year and in the event that the tonnage of imports ~~does not~~ **greatly exceed** 20 million tons in the period from 1952-53, Japanese shipping should be adequate if foreign ships are available to some extent. However, it must be recognized that the present additional burden on Japanese shipping together with the current world shipping shortage, has caused a shortage of shipping space for Japan.

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SECTION IV

JAPANESE PRODUCTION OF STRATEGIC MATERIALS

Japan's highly developed industries have sufficient capacity to make a significant contribution to the strategic materials position of the free world. However, Japan's contribution is largely dependent upon the assured flow of required raw materials imports. Most of the strategic commodities that Japan can produce in excess of its needs, are in short supply in the free world and some, such as aluminum, are urgently needed by the United States to replenish strategic stockpiles. Japan's steel capacity is equal to roughly 10 percent of the US capacity and constitutes about 5.6 percent of the total steel capacity in the free world.

The chief strategic commodities that Japan can produce in excess of estimated civilian requirements are steel, steel products (provided iron ore and coking coal are imported), machinery, sulfur, aluminum (provided bauxite is imported), refined copper (provided copper ore is imported), cement, and possibly caustic soda and soda ash (provided salt is imported), as well as gasoline and lubricating oil if sufficient crude oil and fuel oil are imported. Quantities are listed in (Appendix 2 Table 9).

In addition to the importance of Japan's steel output with reference to the defense of the free world, steel output is of primary importance in Japan's own economic prospects. Since the natural resources of Japan's land area are inadequate to support its dense and rapidly growing population, Japan must maintain a high level of exports of manufactured goods in order to acquire foreign exchange for required food and raw material imports. In the past, these exports have consisted chiefly of textiles. In the future, however, it seems likely that the overseas demand for textiles will either reach a saturation point or shrink, as former markets develop their own textile industries. On the other hand, the demand for steel, steel products, and machinery, which Japan has the capacity to produce, will probably continue to expand. Despite the fact that a large amount of the raw materials required for steel production in Japan must be imported, the value added by manufacture is of primary importance to Japan in the maintenance of a self-supporting economy.

a. Steel

Japan's crude steel capacity is estimated at roughly 10 million metric tons. It is likely that Japan will produce about 7.6 million metric tons in 1952 and approach capacity output by 1953, provided that (1) repairs and rehabilitation of certain plant equipment are made, (2) supplementary raw materials from foreign sources are available, and (3) that either overseas or domestic demand for steel increases, and/or a relatively large-scale armaments program is inaugurated in Japan.

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Japan's civilian requirements for crude steel are estimated at roughly 4.4 million metric tons in 1952 and 4.7 million in 1953. These requirements would leave a surplus of 3.2 million metric tons of crude steel in 1952 for export and for use in defense of the free world. If it is assumed that levels of output by 1953 reach 90 percent of capacity there will be a surplus of 4.3 million metric tons of crude steel for defense purposes in 1953. Japan also has the capacity to further fabricate this steel into steel products and machinery.

b. Aluminum

Japan's aluminum capacity has been estimated at 115,000 metric tons annually. Much of the aluminum refining equipment is not in operable condition at this time. After considerable repairs and rehabilitation, however, it could probably be put in operable condition by 1953. Output in 1952 is estimated at 65,000 metric tons, and domestic requirements for civilian consumption at 35,000-40,000 tons in both of the years 1952 and 1953. Hence there would be a surplus of 25,000 to 30,000 metric tons available in 1952 for defense purposes. Assuming that by 1953, almost all of the necessary repairs will have been made, but that operating efficiency will be 10 percent below rated capacity, Japan could produce roughly 104,000 metric tons of aluminum. This would mean a surplus of 64,000 to 69,000 metric tons for export and defense. Some expansion of Japan's present electric power generating facilities probably would be required to reach this level of aluminum output.

c. Sulfur

Japan has extensive reserves of sulfur chiefly in the form of pyrites but also occurring in almost pure form ("natural sulfur") and as sulfur ore. Almost all of the sulfur mined as pyrites is required for Japan's sulfuric acid industry. Almost all of the natural sulfur as well as the relatively minor quantities of sulfur ore produced in Japan are refined and marketed as refined sulfur. After some rehabilitation of the mines and improvements in refinery methods, it is believed Japan can produce 180,000 metric tons of refined sulfur in 1952 and 225,000 metric tons in 1953. In the more distant future, this output could probably be raised to somewhat higher levels without large capital outlays. Of this output it is estimated Japan will require 160,000 and 180,000 metric tons in 1952 and 1953, respectively, leaving a surplus for export and defense purposes of 20,000 and 45,000 metric tons respectively.

d. Refined Copper

As in the case of most metals, ferrous as well as nonferrous, Japan's copper refining capacity exceeds considerably its ore mining capacity. It is estimated that during the next few years Japan will be

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able to mine somewhat less than half the copper ore that could be refined in Japan. If imports of copper ore were available, Japan could produce an estimated 120,000 metric tons of refined copper in 1952 and 130,000 metric tons in 1953, (assuming operating efficiency would not be higher than 90 percent of rated capacity). Due to the expansion in electric power facilities anticipated for Japan during 1952 it is believed that Japan's requirements for refined copper would increase from 1952 to 1953 at a greater rate than its output, even if copper ore or scrap imports were available. Hence, it is estimated that in both 1952 and 1953 roughly 50,000 metric tons of the above production of refined copper would be in excess of Japan's civilian requirements.

e. Cement

Cement production in Japan in the current year will probably exceed all previous levels of output, largely because Japan has greater capacity than it ever utilized; the necessary raw materials are indigenous to Japan; and demand for use in reconstruction and new construction is high. Since these factors will probably also prevail in 1952 and 1953, it is believed that cement output will reach 6,800,000 metric tons (or the December 1950 capacity level) in 1952. It also seems likely that by 1953 capacity will have expanded beyond the 1950 level and output will reach 7,000,000 metric tons. These levels, it is estimated, will be about 1,000,000 metric tons in excess of Japan's civilian consumption in each year, and hence be available for export and use in defense of the free world.

f. Caustic soda and soda ash

There is a possibility that in 1952 Japan will produce soda ash and caustic soda at a level exceeding 1950 capacity, if the 1951 trends continue. These 1952 levels of output are estimated at 575,000 metric tons for soda ash and 400,000 metric tons of caustic soda. It is estimated that, of these amounts, although practically no soda ash will be surplus, there may be about 50,000 metric tons of caustic soda in excess of Japan's civilian requirements. It is possible but by no means probable that a similar surplus of caustic soda may be available in 1953. It should be noted, however, that these levels are dependent on large imports of salt brought from distant sources at high freight costs.

g. Petroleum products

Japan's total output of refined petroleum products is estimated at 24,500,000 bbls. in 1952 and 26,300,000 bbls. in 1953. In these years, these levels of output would require crude oil imports of roughly 23,900,000

bbls. and

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bbls. and 25,400,000 bbls., respectively. Due largely to Japan's extensive coastwise shipping, the country requires an unusually large proportion of fuel oil compared to other types of refined petroleum. Hence several million barrels of imported fuel oil in addition to domestic production will probably be required. It is likely, however, that Japan will have a surplus of gasoline (motor fuels), kerosene, and lubricating oils beyond civilian requirements amounting to at least one million barrels in each year, of which about 400,000 barrels will be kerosene.

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SECTION V

BALANCE OF PAYMENTS PROSPECTS.

From the balance of payments standpoint, it is estimated that Japanese earnings on invisible account and from special exports, together with the increase in commercial trade, will place Japan in a relatively favorable position during the next two years. The post-war chronic dollar problem arising from Japan's dependence on United States and Canada for raw material supplies and foodstuffs probably will not be too serious in the short run. Although deficits in commodity trade with the dollar area probably will continue, it is estimated that this deficit probably can be covered by earnings from special exports and invisible earnings resulting from personal expenditures of United States military personnel stationed in Japan, and from payments to the Japanese Government for at least part of the local maintenance of these troops.

The impact of loss of China trade on Japan's short-run balance of payments position would appear not to be crucial. As discussed in the Raw Material Problem section, above, the increased cost of purchasing raw material from alternative sources would add about \$29.5 million in 1951 and \$37.5 million in 1952. Japanese exports to Communist China of comparable levels in each year would also not affect Japan greatly during this period. Certain minor industries in Japan, may need to make some readjustments.

Japan's long-run balance of payments prospects depend upon the degree to which a host of interrelated and now uncertain factors affecting its trade are resolved in its favor. Assuming abatement of present "cold war" conditions, but continuation of a considerable degree of currency inconvertibility, Japan must seek to expand its export markets and its non-dollar sources of critical raw materials. In this endeavor, a great deal will depend upon the

competitiveness

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competitiveness of Japanese exports and the general attitudes of countries trading with Japan. The development programs in South and Southeast Asia may be expected to have a favorable impact on Japanese exports, and by encouraging the development of rice and mineral resources of the area, it may be expected to alleviate to a considerable degree Japan's present dependence upon dollar areas for these commodities.

Historical trade patterns and the geographical proximity of mainland China inevitably will lead to a desire to trade with this area both as an outlet for exports and as a source of raw materials. To the degree that procurement of raw materials is not successfully shifted to other non-dollar areas, Japan may be expected to feel acutely the need for resumption of trade on a relatively large scale with Communist China. The mainland China area potentially could compensate to a considerable degree for the increased stringency of Japan's balance of payments position consequent upon the loss of the special sources of foreign exchange earnings arising from present world conditions. Japan's trade with that area of China now Communist controlled, historically was significant; total trade with China in 1936, for example, was \$305 million with Japanese exports exceeding imports by \$76 million. In any event, under circumstances of peaceful resumption of trade, the complementary nature of the two economies and their geographical proximity leads inescapably to the conclusion that the volume of such trade would be significantly large.

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SECTION VI

JAPANESE ATTITUDES ON CONTROL
OVER TRADE WITH THE SOVIET BLOC.

The Japanese tend to view the question of trade with the Soviet bloc less in terms of the whole and more in terms of specific countries within the bloc, particularly Communist China, with whom trade relations are of potentially greatest importance. In general, the Japanese naturally would prefer as much freedom of action as possible, in trade as well as in other fields, in keeping with their view of the needs of a sovereign Japan attempting to rebuild an independent economy and reestablish a strong international position. Illustrative of the attitude among some political and business elements has been the use of such arguments as: "business" can be separated from "politics" and "trade makes friends." However, most Japanese, realizing the threat posed to their national security by Communist aggression, recognize, even though with reluctance, that some restrictions on their freedom of trade will be unavoidable, as part of the price of national survival. Aside from the obvious Japanese Communist stand on trade with the Soviet bloc, the Japanese Socialists oppose any restrictions in principle, mainly for political reasons and as a facet of their neutralist policies.

There is little evidence of Japanese concern over trade with the Eastern European members of the Soviet bloc. However, in an informal Soviet-Japanese trade conference held on November 2, 1951, between several members of the Diet and two Soviet mission officials, one of the Japanese stated that Japan was interested in exporting textiles and machine tools to Russia in exchange for cotton, iron ore, oil and coal. The Russians, while generally encouraging to the development of Russo-Japanese trade, gave evasive answers to direct questions of the export of coal to Japan from Sakhalin. Should a Russian offer actually materialize, Japan would probably be able to procure cheaper coal and also much needed wood pulp.

General Japanese attitudes with regard to trade with the Soviet bloc take on sharper focus over the question of trade with Communist China, a subject of widespread and immediate concern to the Japanese. The magnitude and patterns of pre-war trade have helped to foster Japanese hopes over the prospects of trade with the Chinese mainland. Judging partly from the recent efforts of governmental spokesmen to deny that such prospects hold any high promise for Japan, it would appear that many Japanese have

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considered some trade with China essential to the future Japanese economy, especially in view of the importance to Japan of certain raw materials available in China, and of general significance of geographical propinquity, and moreover politically essential if isolation of Japan from the Asian continent is to be avoided.

Three variable factors are involved in estimating the extent and nature of domestic political repercussions in Japan in connection with a Japanese export control program: (a) whether the controls are similar to, or much greater than, those actually applied by other countries; (b) whether the Korean hostilities are continuing or have ended; and (c) whether the control program takes into consideration the special needs of the Japanese economy or whether alternative provisions for these needs are made.

With regard to the first factor, the Japanese have shown their willingness to join in collective efforts by the free world to check Communist aggression, especially those sponsored by the UN. In general, greater public support or at least willing acceptance might be expected if the Japanese action were coordinated with that of other countries. However, this potential public acceptance might be threatened if the Japanese government undertook to impose controls far more drastic than those imposed by other countries, particularly if one or more of those countries appeared to be ready to exploit the Japanese absence from the China trade for example. The Japanese, and especially business circles influential in politics, would desire under these circumstances clear assurance that the Japanese self-denial accomplished a good purpose.

With regard to the second factor, the continuation of hostilities in Korea would, in view of Japan's stake in that situation, render easier Japanese acceptance of the need for controls. Security considerations arising out of the Korean hostilities probably would be accepted as at least partial justification for the imposition of even more drastic controls than those imposed by other countries. Similarly, if there were Chinese intervention in Indo China on the Korean model, following a cease fire in Korea, drastic Japanese controls could probably be maintained against China. However, if the Korean hostilities had ended and the Communist threat in Asia appeared to have waned, restiveness over restrictions would probably increase, and become especially pronounced if other countries' restrictions were far less severe.

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With regard to the third factor, the extent of political repercussions would depend partly on the extent to which the Japanese government were able to provide public assurance that the control program did not impose crippling burdens which would jeopardize the development of an independent Japanese economy. The more disadvantageous from the Japanese economic standpoint the controls are considered, the greater would be the domestic pressure on the Japanese government to secure adequate compensations and to use the issue as a lever for bargaining with the US, even on questions relating only indirectly to the Japanese economy. Moreover, the Japanese, anxious to rise above a dependent status, would not consider US subsidies, with their accompanying implications of control, as an acceptable alternative to an autonomous economy for any length of time. On the other hand, as Japan is able to develop both sources of raw materials and markets in other areas of Asia, the economic pressure for the opening of China trade would lessen.

Even under the most extreme of the conditions mentioned above, imposition of an export control program would not by itself, be likely to threaten seriously the stability of a conservative Japanese government. However, the action might add to the danger of placing that government in a defensive position and provide the political opposition--including conservative as well as leftist and extreme rightist elements--with opportunities to make political capital. Depending on the extent of the restrictions and upon the circumstances under which they were imposed, an export control program might provoke charges, to which the Japanese government would be highly sensitive, that the Japanese government was being subservient to the US and that Japan's national interests were being disregarded. These charges would intensify the sensitivity of the conservative Japanese leadership to Japan's political and economic dependence on the US. Such a situation would invite exploitation by Communist propagandists, and might tend to increase popular Japanese receptivity--at present at a relatively low level--to Communist arguments, but the capacity of the Japanese Communist Party to make impressive advances as a result of this issue would probably be limited. If it were possible to consider an export control program as an isolated question in an otherwise harmonious situation, the domestic political repercussions outlined above might hold fewer implications; however, since these repercussions would flow basically from fear of undue subordination of national interests to foreign control, their significance would be magnified in proportion as a control program added to an already existing context of actions which, as it might come to appear to the Japanese, the Japanese government seemed compelled to undertake in line with US policies.

SECTION VII

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Annex 1

List of Export Commodities requiring License for Export
from Japan, entitled "Revised Attachment I" to Cabinet
Order No. 378 "Concerning Control of Export Trade"
(Japanese Government Export List)

Revised Attachment I

1. All Ferrous and non-ferrous ores, concentrates, intermediate products, metals, alloys and scrap
2. All ferrous and non-ferrous metal products (except household kitchen, table and bedroom utensils, stationery supplies, hand-operated office machines, toys and miscellaneous adornments for personal use)
3. All of the following minerals in any grade, form, size or shape, either natural or manufactured:
 - 1) Abrasives
 - 2) Asbestos
 - 3) Graphite
 - 4) Carbon
 - 5) Mica
 - 6) Sulphur
 - 7) Magnesium silicate
 - 8) Quartz crystal and place (except items for personal adornment and seals)
 - 9) Cryolite
 - 10) Iron pyrites
 - 11) Cuprous pyrites
 - 12) Diamonds
 - 13) Jewel bearings
 - 14) Cement
 - 15) Electrical porcelain
 - 16) Refractories, (including plastic) either brick, clay, cement or mortar
 - 17) Coal
 - 18) Coke
 - 19) Lime stone
4. All petroleum and petroleum products, also all
 - 1) Additives
 - 2) Blending agents
 - 3) Synthetics
 - 4) Catalytics
 - 5) Gum inhibitors
 - 6) Hydraulic oils
5. All sugar and molasses
6. Hides, skins, hair, etc.
 - 1) All raw hides and skins (except raw furs)
 - 2) All boot, shoe and belting leather
 - 3) All bristles, hair and leathers (except furs)

7. All natural or synthetic rubber and allied gums and manufactures thereof (except garden hose, toys, parts of bicycles and stationery supplies)
8. All of the following textiles and fibers:
 - 1) Raw cotton; used cotton; cotton linters, waste, pulp, card strips and rags
 - 2) Synthetic fibers and manufactures thereof, except clothing
 - 3) Wool, wool rags (woven and knit), noils, waste, tops and yarns
 - 4) Manila (abaca), sisal (henequen), jute and manufactures thereof, except when used to package other products
 - 5) Tire fabric, cord and yarn
9. All paper, paper board (except cigarette, Japanese hand-made, and paper used for packaging exports)
10. Rosin, paints, etc., as follows:
11. All synthetic gums and resins
12. All cellulose or items containing cellulose, (except textiles, exposed photographic film for exhibition purposes, cellophane, toys and items for personal adornment)
13. All chemicals and medicines (except household remedies)
14. All fertilizers and materials:
 - 1) Intermediate
 - 2) Finished
15. All fats, oils and oil-bearing materials
16. All scientific, precision or professional instruments, apparatus, parts, attachments, accessories and supplies (except hand-operated office machines)
17. All machinery, equipment, parts, accessories, attachments, apparatus and controls of the following types:
 - 1) Construction, excavating, dredging, loading or surfacing
 - 2) Transportation, communications, conveying or agricultural, including supplementary and service (except bicycles and parts only, children's vehicles, water-craft under 18 feet in length and hand-powered agricultural machinery.
 - 3) Mining, quarrying, well or pumping
 - 4) Petroleum field, refining, pumping, processing or handling
 - 5) Chemical manufacturing, handling or storing
 - 6) Mill, foundry, forging or any other metal-working
 - 7) Machine tools
 - 8) Electrical (except household and ornamental light bulbs and household appliances)
 - 9) Rayon and synthetic fiber manufacturing, preparing, spinning, twisting, filament and band-forming
 - 10) Textile dyeing and finishing
 - 11) Ball and roller bearings and components
 - 12) Industrial or manufacturing not specifically mentioned

18. All textile equipment, machinery, parts, attachments and accessories not specifically mentioned (except household type sewing machines)
19. All silk cocoons, silk noils, waste, etc.
 - 1) Silk cocoons and silk worm eggs
 - 2) a. Silk waste
b. Silk noils
 - 3) Bourette
20. All staple foodstuffs and feed
21. Tree seeds and plants
 - 1) Japanese cedar
 - 2) Japanese cypress
 - 3) Aka matsu
 - 4) Kuro matsu
 - 5) Larch
 - 6) Ezo matsu
 - 7) Todo matsu
22. Wood products:
 - 1) Telephone poles
 - 2) Railway sleepers and cross ties
 - 3) Mining timber
 - 4) Piling logs
 - 5) Softwood (coniferous) logs, including pulpwood, hewn lumber and cants
 - 6) Softwood (coniferous) lumber, including collapsible shooks (excluding momi chest) and planed or grooved lumber, except for necessary crating for exports
 - 7) Hardwood (broadleaf) logs, including pulpwood, hewn lumber, cants and sawed lumber the minimum cross-section of which has 30% or more of the bark remaining
 - 8) Firewood and gasumaki (except from Tsushima)
 - 9) Charcoal
 - 10) All wood pulp
23. All pyrethrum flowers and products
24. All weapons and war materiel of any nature, gun powder explosive (including industrial types, explosive stabilizers, poison gases, incendiaries, pyrotechnics and component parts of weapons and war materiel and ingredients for the manufacture of the foregoing)
25. All counterfeit, altered or imitation currencies, postage and revenue stamps and all items having facsimile of currencies engraved thereon.
26. Any book, pamphlet, paper, writing, advertisement, circular, print, picture, film or drawing containing any matter advocating or urging treason or insurrection against any government.

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27. Any book, picture, carving or other article likely to injure public morals
28. Any narcotic drug or utensil used therefor
29. All national treasures of any country and important art objects
30. Any articles which infringe or are designated by the Minister of International Trade and Industry as likely to infringe upon rights in patents, utility models, designs, trade-marks and copyrights at the destination
31. All imported goods not elsewhere mentioned
32. All goods unladen.

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SECTION VII

ADMINISTRATION OF EXPORT CONTROLS

The present export control mechanism is established in a memorandum entitled "Export License Control" dated August 21, 1951, issued by SCAP. The purpose of this memorandum was to consolidate various instructions and provisions previously issued in a number of documents and to rescind directives no longer considered necessary.

Export licenses are required when the commodity involved is included in the revised Japanese Government Export List, dated May 28, 1951 and amended July 19, 1951. This list is attached as Appendix 1. Of the items listed, export license validation by SCAP is required for goods covered by Items 1-17, (except for (6), (7) and (8) of Item 8). Item 19 (2), Items 22-24, and Item 32, or when any of the goods on the export control list are for shipment to Mainland China, including Hainan Island and adjacent islands under the control of the People's Republic of China, Manchuria, North Korea, Hong Kong, and Macao (with the exception of some textiles under Item 8). All export license applications submitted to SCAP, indicating a destination in Communist-dominated areas are automatically denied. In case of export license applications for the items referred to above, if SCAP questions the destination shown, or suspects transshipment, SCAP requires the exporter to produce letters or other evidence of ultimate use and the buyer's and user's statements that the goods are for final consumption in the country designated in the license. When SCAP considers it advisable, the Department of State is requested to make end-use checks through its Foreign Service posts.

All goods intended for export require clearance by the Japanese Customs Service and must be accompanied by an "Export Declaration." This "declaration" must contain country destination, port and country of unloading, first foreign port of call, transshipment port, and description and quantity of commodities to be exported.

With respect to exports to Hong Kong, in addition to the "Export Declaration", it is required that if the item is on the control list, an application for an export license must be accompanied by an essential supply certificate issued by the Hong Kong Government.

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When an export license is required, it is necessary that the shipper include on all copies of the bill of lading a statement that the shipment is covered by a Japanese export license together with the license number and the country of final destination.

All SCAP validated licenses must bear the seal of the Foreign Trade Division, Economic and Scientific Section, in addition to the signature of the validating official.

In accordance with SCAP and Japanese Ministry of International Trade and Industry regulations, bills of lading covering exports from Japan must contain one of the following, whichever may be appropriate: (1) a statement that no export license is required, or (2) if an export license is required, a statement attached to the bill of lading to the effect that the shipment adheres to the provisions of SCAP Circular 3, of January 8, 1951. This circular prohibits carriers from issuing bills of lading providing for delivery at any foreign port except one located in the country of the ultimate consignee or the intermediate consignee named in the approved export license, in which case prior SCAP approval must be obtained to land the cargo in a country other than the designated country of final destination. Failure to comply with any of the aforementioned provisions precludes foreign exchange banks from negotiating the shipping documents.

Masters of vessels arriving in Japan with cargo consigned to Japan (including those instances where Japanese ports are listed as one of several optional destinations) may be required to discharge such cargo in Japan before clearance for departure is granted, unless such cargo is properly licensed for export from Japan.

Operational supervision of foreign trade is the responsibility of the Japanese Custom Service under the surveillance of SCAP. Smuggling detection activities are conducted by the Japanese Government Maritime Safety Bureau of the Ministry of Transportation operating through the Maritime Safety Agency which controls Harbor Masters, and, also, by operational units under SCAP supervision.

Penalties

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Penalties for violation of export control regulations are provided for in Japanese laws and regulations. Bunkering controls limit the supply of petroleum to that required to carry a vessel to the next port of call, plus a reasonable reserve. Japanese officials state that competent Customs personnel are now stationed at the various bunkering ports, where petroleum products are held in bond, and that this control measure is now being fully implemented. Similar restrictions are applied to ships stores and supplies.

An arrangement exists whereby the Japanese may make barter deals with Communist China involving the exchange of Japanese cotton textiles for such essential commodities as iron ore, coking coal, and salt. The export of cotton textiles has been under SCAP surveillance since July 25, 1951 for reasons other than destination control. Prior to that date, cotton textiles were not subject to export controls. Between September 20 and October 16, only two deals had been concluded, exchanging grey cotton sheeting for salt and coking coal.

Improvements in Japanese Export Control Mechanism.

Reports indicate that the present Japanese export control mechanism is relatively effective. However, there are certain features of the control system which warrant attention.

Aside from the obvious need to inform the Japanese of existing security criteria governing export controls, the education of the Japanese to the implications and pre-requisites of an effective export control system is essential. In addition to instruction in the techniques and facilities used in the administration of security export controls, a program of education should include such operations as handling hardship cases which may arise, and dealing with political-economic pressure groups. Such activities require close working relations with business interests, inter-agency consultation, and intelligence and investigative services.

The establishment of adequate investigative and intelligence facilities both in Japan and abroad is of utmost importance. At present, SCAP's knowledge of international violators or suspected

violators

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violators of export controls is largely limited to information supplied by the United States. It is doubtful whether attempts are made to develop similar data in Japan. Information should, of course, continue to be supplied by the United States; however, some means of investigating businessmen residents in Japan as well as foreign consignees should be established by the Japanese. The latter could be accomplished through Japanese overseas agencies in cooperation with United States Missions. In this connection, the United States has recently proposed that SCAP turn responsibility for checking certain less strategic items over to MITI through Japanese overseas agencies where such exist or through United States posts. The early implementation of this procedure would enable SCAP authorities to judge the probable effectiveness of Japanese operation of these checks and to make the necessary improvements prior to the withdrawal of the United States from Japan.

Customs control in Japan is simplified by the small number of trading ports with facilities adequate for international commerce. However, the fact that Japanese port facilities are being used as supply bases for shipments to United States armed forces in Korea has resulted in over-crowding of such facilities and inadequate customs supervision. Moreover, a recent review of the Japanese customs organization indicates a number of striking inadequacies, namely, lack of liaison between the central customs authorities and the six semi-autonomous customs districts plus inadequate training of personnel. This situation leads to non-uniformity in handling customs problems including standards of inspection and supervision. If the Japanese customs service is to detect and prevent violations of export control measures, which occur through inefficiency and corruption, central administration of this service is essential. The facts appear to be well-recognized, but steps to correct these deficiencies must be accelerated if Japanese customs control is to be adequate when SCAP supervision is no longer available.

There is considerable question whether the present system of fines and penalties for violation of Japanese export controls will be sufficient to deter such activities particularly after the

withdrawal

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withdrawal of SCAP from these responsibilities. In defense of the present system, however, reports indicate that no appreciable number of violations have occurred to the knowledge of authorities. This fact is attributed to the conscientious adherence of the Japanese business community to present directives rather than to lack of supervision.

It is important that the Japanese establish an adequate system for compiling and reporting trade statistics. The present system of statistical reporting with respect to export controls would be inadequate for security purposes if it were not for a regular series of reports now furnished by SCAP. SCAP reports monthly to Washington its action on Japanese applications for licenses to export strategic goods to Communist China, Korea, and Hong Kong. (All applications for Communist China, North Korea are denied.) Details of Japanese trade with China and Hong Kong are also supplied in advance of the regular published trade data through SCAP channels. In order to keep the United States fully informed of the composition of Japanese trade with the Soviet Bloc, it is desirable that the Japanese report trade statistics to the United States through the Embassy in Tokyo in the form in which they are now transmitted by SCAP so that it will be possible to judge the accuracy of Japanese licensing action and the need for alterations in controls.

In view of the active interest, particularly on the part of the British, and the policy implications involved in barter transactions between Japan and China covering cotton textiles, it is desirable that the Japanese authorities consult with the United States when significant amounts of textiles are involved. This procedure would be in accord with present SCAP practice of reviewing deals negotiated by MITI.

To provide the basis for improvements in the present Japanese export control system, a comprehensive and detailed study of the present Japanese mechanism of control should be undertaken by SCAP officials in cooperation with MITI with the assistance of experts from the United States if considered necessary. As soon as feasible, SCAP should gradually shift its export control responsibilities to Japanese officials who should operate under the surveillance of SCAP for the duration of the United States occupation of Japan.

Financial

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Financial Controls.

Chinese Communist assets and assets of other Soviet Bloc countries in Japan are not believed to be substantial and to date no restrictions have been placed on such assets. It was reported in January 1951 that mainland Chinese and Koreans had a sizeable interest in foreign currency escrow accounts, which aggregated approximately \$8,500,000, represent the proceeds of exports to Japan and are usable in payment for exports from Japan. To the extent that such accounts represent United States dollars or have dollar counterpart, however, they are subject to the Foreign Assets Control of the United States Treasury Department. The non-resident inconvertible yen accounts, which aggregated some 200,000,000 yen, equivalent to approximately \$550,000, are usable only in Japan and the imposition of blocking controls on these accounts might conceivably be of some help in preventing financial support for subversive activities in Japan. Assuming adequate export controls in Japan, however, it would appear that the imposition of blocking controls on any of these Chinese and Korean assets in Japan, either in the form of foreign currency escrow accounts or inconvertible yen accounts, would have little, if any, effect on Japanese trade with Communist China and North Korea.

Physical trade controls are regarded by the United States Government as the most effective type of measure to prevent undesirable trade with the Soviet Bloc, and it is believed that enforcement efforts by Japan should emphasize this approach. The United States would concur, however, in efforts by Japan to make its trade controls over transactions with the Soviet Bloc more effective through the use of financial controls. There might be some possibility, for example, of evasion of trade controls by means of undesirable triangular transactions undertaken by residents of Japan and involving strategic goods which do not enter the Japanese economy. If such transactions cannot be prevented by other more feasible measures, consideration could be given to the possibility of supplementing the physical trade controls with appropriate financial measures.

Since the issuance by the Secretary of the Treasury of the Foreign Assets Control Regulations with respect to China and North Korea, effective December 17, 1950, the Japanese Government has been requested to assist the United States in the enforcement of these Regulations by divulging any interest of designated nationals in deposit accounts or in other property in the United States held in Japanese names. The continuance of this cooperative assistance after the termination of the occupation of Japan would be desirable.